ANNUAL REPORT 1998/99

Sydney Environmental Resources Limited

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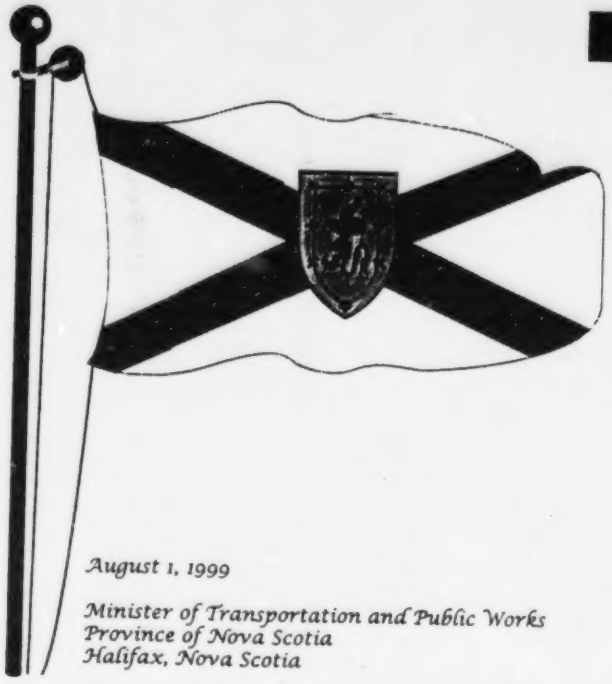
Sydney

Environmental Resources



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August 1, 1999

Minister of Transportation and Public Works
Province of Nova Scotia
Halifax, Nova Scotia

Dear Mr. Minister:

On behalf of the Board of Directors, I have the pleasure to submit herewith the Annual Report of Sydney Environmental Resources Limited (SERL) for the period ended March 31, 1999.

Among other things, the Corporation expended considerable effort in the report period assessing the practicality of continued maintenance of the co-generation complex at the north end of the steel plant. The facility was constructed as part of the original tar ponds clean up project and has been actively maintained by SERL since late 1994.

Combustion experts with CANMET Energy Technology Centre (CETC), a division of Natural Resources Canada, assessed the complex and advised that modifications and upgrading would be required as part of any recommissioning effort. While significant, the cost of this work is considered substantially lower than the expense of replacing the system, in particular the revolving fluidized bed combustion units (FBU). CANMET advised that the removal efficiency of the units can be elevated to '6-nines', the standard for contaminants understood to be within a section of Cape Breton County known as the Muggah Creek Watershed.

Expert opinion is that the availability of the FBU facility is of considerable potential advantage in the eventual removal and destruction of local contaminated material. It is contended that the technology operating in tandem with other compliant thermal combusters would significantly reduce time required to remediate contaminated sites, lessen the risk of downtime and lower aggregate cost by several millions of dollars. The availability of a locally trained workforce led CANMET to conclude that recommissioning the FBU facility to dispose of local hazardous waste would engender significant economic benefits.

The potential for irreversible deterioration threatens the future of the co-generation complex. The current maintenance effort has been enhanced to ensure the technology will be viable in the event the community chooses to proceed with the incineration option in the clean up of the Muggah Creek Watershed.

The Board of Directors was diligent in guiding the Corporation. Appropriate control and information systems were employed and internal committees were mandated accordingly. Directors have combined their talents in service to Nova Scotia while ensuring every reasonable effort is made to secure the assets for which they are ultimately responsible.

Respectfully yours,

E. J. MacLellan, Ph.D., P.Eng.
Acting Chairman

Corporate Profile

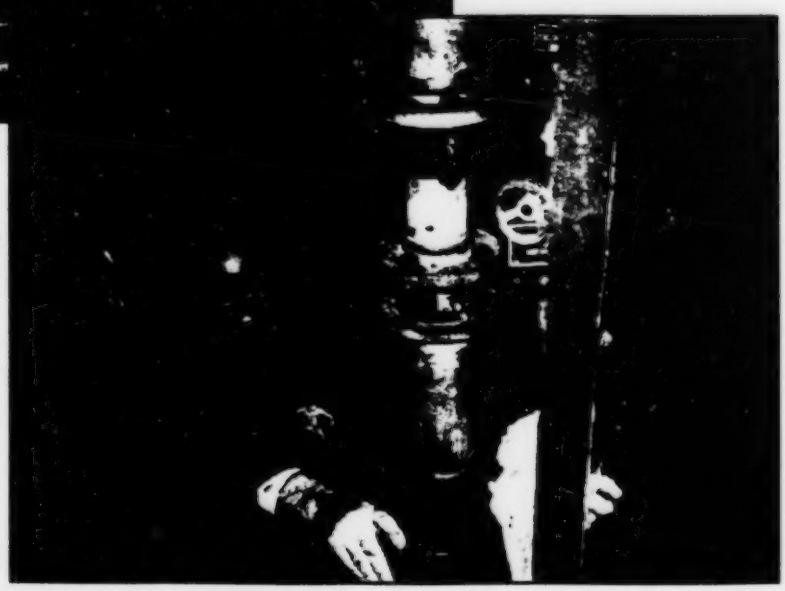
The Company was incorporated under the Nova Scotia Companies Act on July 10, 1990. The Governor in Council, Province of Nova Scotia, on the report and recommendation of the Minister of Industry Trade and Technology and in accordance with the appropriate Acts, approved establishment of Sydney Environmental Resources Limited (SERL), formerly Sydney Tar Ponds Clean-Up Inc., on March 26, 1991. SERL is responsible to maintain Nova Scotia's assets at the Sydney tar ponds site and to assist in growing the community's capacity to address the environmental and health challenges of the area of Cape Breton County known as the Muggah Creek Watershed.

SERL is organized around three units:

- **FINANCE AND ADMINISTRATION;**
- **INTERNAL AND EXTERNAL COMMUNICATIONS; AND**
- **FACILITIES' MAINTENANCE AND SITE SECURITY.**

The Corporation maintains its head office at 500 George Place, Sydney, NS, and reports to the Minister of Transportation and Public Works, Province of Nova Scotia.

George Hennick, Site Supervisor, leads a site tour



Maintenance at the harbour pumps facility

To facilitate and coordinate stakeholder input to the identification and implementation of acceptable remedies for the health and environmental problems of the Muggah Creek Watershed as well as maintain the physical assets of Sydney Tar Ponds Clean-Up, inclusive of identifying acceptable alternative uses for the twin fluidized boilers which are part of the physical plant and equipment under the Corporation's charge.

Compliance With Government Policies and Procedures

SERL operated in compliance with the Policies and Procedures of the Province of Nova Scotia. More particularly with respect to procurement, the Corporation employed government principles and procedures to secure goods and services at the lowest possible cost while maintaining requisite quality, safety, delivery and services requirements. Additionally, fair-hiring practices applied. In the event non-unionized positions cannot be filled internally they are publicly advertised and recruitment is by means of open and fair competition. With respect to unionized positions, United Steel Workers of America Local 1064-2 members are recalled from the affiliated union, Local 1064. The Corporation complies with Nova Scotia legislation on Freedom of Information.

Financial statements are prepared monthly and yearly in accordance with generally accepted accounting principles to reflect the financial position and results of operations of the Corporation within reasonable limits of materiality. The integrity of financial reporting is ensured with a system of internal accounting controls comprising written policies and procedures and a formal authorization structure. The Board of Directors carries out its responsibility for the financial statements through an Audit Committee. The financial statements of the Company are independently audited in accordance with generally accepted auditing standards.

Dr. Edwin MacLellan
Acting Chairman

Ray Martheleur
Vice-Chairman

Pat Muggah

Gerald Buckland

Gary Campbell

Introduction

Fluidized bed combustion systems are employed worldwide and considered leading thermal technology. The fluidized bed units at the north end of the steel plant were selected to destroy tar ponds sediment following exhaustive research and testing under the direction of a federal-provincial management committee supported by leading private experts. The FBU co-generation plant was build at a cost of about $50 million.

Contaminated site remediation is a mature industry. In the past twenty years, hundreds of technologies have been developed and tested worldwide. While some are well suited in specific applications, only one - incineration - has consistently proved totally effective, reliable, safe, and affordable in most applications. In North America alone many millions of tons of contaminated soil and sediment have been treated safely and effectively by incineration.

The FBUs in Sydney were independently tested and found to exceed minimum national standards for emissions control. In the period leading up to compliance tests, the FBUs successfully destroyed more than 4,000 tonnes of tar ponds' sediment. The furnaces were shut down in 1994 when the materials excavation and transfer systems at the tar ponds clean up failed. They have been maintained since by SERL on behalf of Nova Scotia, pending a community recommendation on remediation methods to be employed at the Muggah Creek Watershed. Maintenance is costing about $1.3 million yearly, excluding site security & health & safety initiatives.

Independent Expert Assessment

CANMET Energy Technology Centre, Natural Resources Canada, recognized internationally for its expertise in thermal combustion systems completed a protracted assessment of the FBUs and reported early in the fiscal period. CANMET reaffirmed the technology's relevance but cited the risk of deterioration. The consultants asserted that with modest capital upgrades the FBUs could be safely recommissioned to burn local hazardous waste. It was indicated that the technology could be upgraded from current 99.99 ('4 nines') destruction efficiency to 99.9999 ('6 nines'). Total cost of improvements and upgrades was estimated at approximately $7 million.

Recommissioned the FBU co-generation complex would employ upwards of 80 and generate annual expenditures approximating $7 million. At present, the maintenance effort under SERL's direction employs 15, inclusive of an essential health and safety initiative involving the removal of asbestos from the work site.

Board of Directors

The Board of Directors met regularly throughout the report period; in addition, special meetings were convened. Internal committees were utilized as follows: Audit, Technical, Human Resources, Alternative Use, and Public Relations.

Day-to-day management responsibilities remained with a three-person committee comprising experienced Corporation personnel and a Director in the employ of the Nova Scotia Department of Transportation and Public Works.

Coke Ovens Security

In compliance with an earlier recommendation of the Joint Action Group on Environmental Clean Up, corporate personnel continued to secure the Coke Ovens site. Staff of six is responsible for this endeavour,

four of whom are affiliated with bargaining unit Local 1064-2 and two with the Canadian Union of Public Employees.

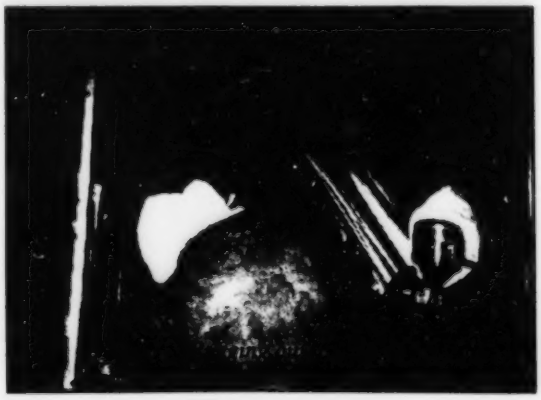
Corporate Plan

In keeping with the Financial Measures Act, in February 1998 Sydney Environmental Resources Limited submitted a corporate business plan for the Fiscal Year 1998-99. The plan articulated the following priorities:

- assess results of the independent assessment of the twin fluidized bed incinerators and present recommendations to the shareholder for future action;
- continue to maintain tar ponds clean up assets and secure the site;
- pro-actively communicate with community stakeholders and provide easy public access to resource materials and other relevant information;
- assess human resources needs and make adjustments in the interest of improved cost-effectiveness;
- negotiate a fair and reasonable collective agreement with unionized personnel;.
- consider potentially viable proposals from the private sector for use of tar ponds assets in the remediation of Sydney Tar Ponds; and
- make input to stakeholder deliberations of specific remediation options for the tar ponds.

Facilities Maintenance

The Corporation adjusted facilities' maintenance in the report period in conformity with earlier recommendations of an independent engineering assessment. This included relocation of the dredge, roof modifications to the powerhouse, restoration of power to the harbour pump house, removal and safe disposal of oil from the T15 substation, improvements to the bag house and fuel cell crane and installation of a new water supply to a decontamination trailer on site. The action was taken in anticipation of incineration again becoming an option as part of a community effort to identify an acceptable remedy for Canada's largest hazardous waste site. SERL employs eighteen in total, of which fifteen are engaged in maintenance, security and site remediation under the direction of a site supervisor supported by an administrative assistant and operations manager.



Health and Safety

The co-generation complex is an amalgam of refurbished and new equipment and buildings. The boiler house which accommodates equipment essential to the production of steam, is a turn of the century four story, 80' tall structure (30'x300'). The central control room for the entire co-

generation complex is housed in this facility.

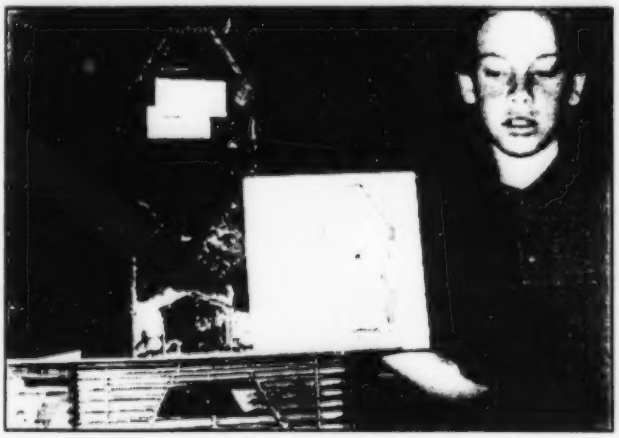
Asbestos wrapping pervades boiler house pipes. The quantity of asbestos material approximates 160 tons and potentially compromises the work site.

A qualified independent engineering firm completed an assessment of the asbestos problem in the report period and readied a removal plan. The remediation project is believed to be the largest of its kind, in respect of volume, in North America. Five SERL employees trained in asbestos removal techniques are assigned to the problem. Approximately 26 tons of contaminated material were safely removed in the report period.

Negotiations

A collective agreement was successfully negotiated with the United Steel Workers of America Local 1064-2, the bargaining unit for SERL employees. Wage parity with employees of Sydney Steel Corporation was the most significant monetary issue in the new contract.

Communications



To optimize the general public's understanding of the application of revolving fluidized bed combustion technology, the corporation published and broadly circulated an informative booklet entitled 'Glad you asked...". Additionally, a WWW site was developed and placed on line.

Community stakeholders were given the opportunity to tour the co-generation complex with a view to better understanding fluidized bed combustion technology. Just under 1,000 persons, inclusive of several hundred students, toured the site and participated in briefing sessions led by senior corporate personnel.

The Corporation continued to coordinate site tours for the Joint Action Group on Environmental Clean Up. As well, it continued active in the Nova Scotia Environmental Industry Association whose purpose it is to promote the growth, development and interests of the environmental industry within the province. Additionally, the Corporation participated in two environmental trade shows within Cape Breton County.

In cooperation with an internationally significant environmental remediation consortium, the Corporation organized a public briefing on the potential application of thermal destruction technology in the remediation of the Muggah Creek Watershed. A large cross section of community business and labour leaders attended the presentation.

Corporation staff continued active in a number of community events including a Rotary Club sponsored activity in support of the Nova Scotia Heart and Stroke Foundation.

A well known elementary school, Sacred Heart, located in the north end of Sydney in close proximity to Sydney Tar Ponds, and the Corporation consummated a business-education partnership. SERL staff are

voluntary participants in initiatives focused on the environment and complementary of existing elementary curriculum.

Y2K Audit

In conformity with protocols adopted by Nova Scotia, the Corporation audited digital systems for year 2000 compliance. Local area network hardware and software were upgraded as necessary to ensure no disruption of administrative functions. As well, control systems and instrumentation at the co-generation complex were assessed. Hardware and software requiring upgrading in the event of a decision to recommission the complex were identified. The Corporation is Y2K compliant.

Joint Action Group on Environmental Clean Up (JAG)

The Corporation continued the exchange of information with JAG throughout the report period and provided the Secretariat with a comprehensive briefing on the recommendations of the CANMET study of the fluidized bed incinerators.

Financial Summary

During the year ended March 31, 1999, the financial activities of the Company included managing project administration costs, plant maintenance and security costs and equipment assessment consulting charges.

The audited financial statements for the year ended March 31, 1999 reflect operating expenditures of $1,748,051. A four year summary of Operating Expenditures is as follows:

OPERATING EXPENDITURES

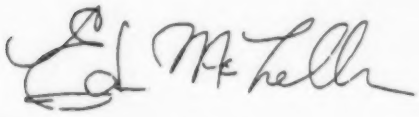
1999	**$1,748,051**
1998	**$1,349,797**
1997	**$1,306,258**
1996	**$3,813,201**

The accompanying financial statements and other financial information contained in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared in accordance with generally accepted accounting principles except as disclosed in Note 3 to the financial statements and, where appropriate, reflect management's best estimates and judgments. In the opinion of management, these financial statements fairly reflect the financial position and results of operations of the Company within reasonable limits of materiality.

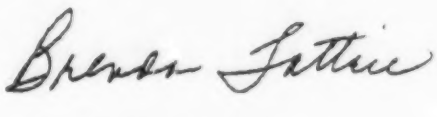
To discharge its responsibility for the integrity of financial reporting, management maintains a system of internal accounting controls comprising written policies and procedures and a formal authorization structure. This system is designed to provide management with reasonable assurance that assets are safeguarded; that transactions are properly authorized and that financial records are properly maintained to provide accurate and reliable financial information.

The Board of Directors carries out its responsibility for the financial statements through its Audit Committee, which consists entirely of members of the Company's Board. This Committee meets periodically with management and the external auditor to discuss and review audit and financial matters, and recommends the financial statements of the Board of Directors for approval. The Company's external auditor have free and full access to the Audit Committee.

The financial statements have been independently audited by J T Nash Limited in accordance with generally accepted auditing standards. The Auditor's Report outlines the nature of their audit and expresses their opinion on the financial statements.



Edwin MacLellan, P.Eng.
Acting Chairman



Brenda Tattrie, Manager
Finance, Purchasing & Accounts

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295 GEORGE STREET
SYDNEY, NOVA SCOTIA
B1P 1J7

JOHN T NASH
CHARTERED ACCOUNTANT

TELEPHONE 902-539-2770
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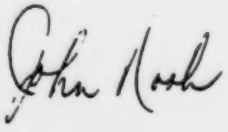
AUDITOR'S REPORT

To the Minister Responsible for Sydney Environmental Resources Limited

I have audited the operating fund balance sheet of **Sydney Environmental Resources Limited** for the year ended March 31, 1999, and the statement of revenue and expenditures for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1999, and the results of its operations for the year then ended, in accordance with generally accepted accounting principles except as disclosed in Note 3.



May 7, 1999

Chartered Accountant

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
STATEMENT OF REVENUE AND EXPENDITURES
YEAR ENDED MARCH 31, 1999

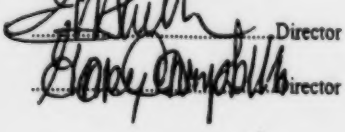
	1999	1998
Operating revenue	$ 1,748,051	$ 1,349,797
Operating expenditures		
Civic taxes	2,608	3,575
Directors' fees	12,599	17,346
Health, safety and environmental	192,246	-
Incineration plant operation and maintenance	52,632	70,923
Incineration plant overhead	197,854	135,096
Joint Action Group	297,367	147,463
Office	25,212	33,000
Professional fees	8,977	11,791
Public information	55,151	48,307
Rent	23,546	25,735
Salaries and benefits	765,712	719,165
Technical services	98,230	120,162
Telephone	10,174	11,599
Travel	5,743	5,635
	1,748,051	1,349,797
Excess revenue over expenditures	$ NIL	$ NIL

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
BALANCE SHEET
AS AT MARCH 31, 1999

	1999	1998
ASSETS		
Current		
Cash	$ 84,157	$ 118,143
Accounts receivable	52,400	50,090
Prepaid expenses	27,517	-
	$ 164,074	$ 168,233
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 93,179	$ 99,287
Due to Province of Nova Scotia	70,894	68,945
	164,073	168,232
EQUITY		
Share capital (Note 8)	1	1
	$ 164,074	$ 168,233

Commitments (Note 7)

Approved by the Board



Director

Director

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 1999

1. AUTHORITY AND OBJECTIVE

The Company was incorporated under the Nova Scotia Companies Act on July 10, 1990. It was established as a crown corporation of the Province of Nova Scotia by Order-in-Council on March 26, 1991. On January 7, 1998 the company changed its name from Sydney Tar Ponds Clean – Up Inc. to Sydney Environmental Resources Limited.

Its current objective is to utilize its resources in emerging community based environmental initiatives.

2. CONTINUATION OF THE BUSINESS

The accompanying financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The continuation of the Company is dependent upon obtaining necessary funding from the Province of Nova Scotia and/or the Government of Canada.

3. ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles except as outlined below.

a) Financing

The Company, an agency of Her Majesty, receives legislative appropriations for operating expenditures. These appropriations are reflected as operating grants to the extent of operating expenditures. Any excess appropriations are accounted for as deferred operating grants. Consequently, the Company does not have any equity.

b) Capital Assets

In accordance with funding requirements, the cost of capital assets are accounted for as current operating expenditures.

4. DUE FROM PROVINCE OF NOVA SCOTIA

The payable to the Province of Nova Scotia as at March 31, 1999 represents operating funding received for the year ended March 31, 1999 in excess of operating expenditures.

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 1999

5. RELATED PARTY TRANSACTIONS

During the year, the Company received a net current operating grant of $ 1,748,051 (1998 - $1,349,797) from the Province of Nova Scotia.

In addition to the above-noted related party transactions, the Company is related in terms of common ownership to all Province of Nova Scotia created departments, agencies and crown corporations. The Company enters into transactions with these entities in the normal course of business.

6. COMPENSATION LEGISLATION

The Company has complied with the provisions of the Public Sector Compensation Act.

7. COMMITMENTS

a) Operations

The Company has committed to the Province of Nova Scotia, that it will run its affairs in accordance with Provincial standards. Its operations will be accountable to the Province through the Minister responsible for Sydney Environmental Resources Limited.

b) Sales Agreement

Should the Company operate the incinerator, it has a sales agreement with Nova Scotia Power Inc. to sell power, which the incinerator will generate. The agreement expires August 25, 2000.

c) Land Lease

The Company has entered into an agreement with Canadian National Railway Company to lease approximately 46 acres of land for an annual rental of $1.00. The land gives the Company access to the Sydney Tar Ponds. The Company undertakes not to further contaminate any leased lands. The lease expires October 31, 2001.

d) Sydney Steel Corporation

The company has undertaken to hire displaced Sydney Steel Corporation employees.

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 1999

8. SHARE CAPITAL

Authorized
50,000 common shares with no par value

Issued
1 share at $1 $ 1

9. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be full resolved.